

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2010-4-G - ORDER NO. 2010-597
SEPTEMBER 3, 2010

IN RE: Annual Review of Purchased Gas)	ORDER RULING ON
Adjustment and Gas Purchasing Policies of)	PURCHASED GAS
Piedmont Natural Gas Company, Inc.)	ADJUSTMENT AND GAS
)	PURCHASING POLICIES

This matter before the Public Service Commission of South Carolina (“Commission”) concerns the annual review¹ of the Purchased Gas Adjustment (“PGA”) and gas purchasing policies of Piedmont Natural Gas Company, Inc. (“PNG” or “Piedmont”). The South Carolina Office of Regulatory Staff (“ORS”) is a party of record in this proceeding under the provisions of S.C. Code Ann. §58-4-10(B) (Supp. 2009). PNG and ORS (collectively the “Parties” or individually a “Party”) entered into a Settlement Agreement (“Settlement Agreement”) which was filed with the Commission on July 6, 2010.

The Commission conducted a formal hearing in this matter on July 15, 2010, beginning at 10:30 a.m. in the hearing room of the Commission with the Honorable John E. Howard, Chairman, presiding. Jeffrey M. Nelson, Esquire, appeared on behalf of ORS. James H. Jeffries, IV, Esquire, and Dan D’Alberto, Esquire, appeared on behalf of PNG.

¹ See Commission Order No. 88-294 dated April 6, 1988 (annual review).

At the hearing, the Commission accepted into the record the pre-filed direct testimony of PNG witness Keith P. Maust and the pre-filed direct testimony and exhibits of PNG witnesses Robert L. Thornton and William C. Williams, as well as the pre-filed direct testimony and exhibits of ORS witness Daniel F. Sullivan and the pre-filed direct and settlement testimony of Carey M. Stites. The Commission also accepted into evidence the Settlement Agreement as Hearing Exhibit No. 1. Mr. Sullivan's exhibits were admitted into evidence as composite Hearing Exhibit No. 2. Mr. Thornton's exhibits were entered into evidence as composite Hearing Exhibit No. 3. Mr. Williams' exhibits were admitted into evidence as composite Hearing Exhibit No. 4.

PNG witness Maust testified as to PNG's gas purchasing policies and the components of the "best cost" gas purchasing policy. Mr. Maust stated that PNG did not implement any changes in its "best cost" gas purchasing policies or practices during the Review Period (April 1, 2009 to March 31, 2010) and PNG's hedging plan accomplished the goal of reducing gas cost volatility to South Carolina customers purchasing gas from PNG. PNG's South Carolina customers incurred a net economic cost of \$5,435,784 as a result of PNG's hedging plan during the Review Period. Mr. Maust also testified that the "best cost" purchasing policy utilized by PNG has been reviewed and found prudent on all occasions in South Carolina and the other state jurisdictions in which PNG operates.

PNG witness Thornton testified to the end of period balances in and the accounting for Piedmont's deferred gas cost account (Account 253.04) during the Review Period. That accounting is set out in composite Hearing Exhibit No. 3. Mr. Thornton also stated that ORS audited PNG's gas cost accounting as part of this proceeding.

Finally, Mr. Thornton testified that PNG's accounting of its gas costs during the Review Period included previously approved changes to its Lost and Unaccounted For methodology and its treatment of unbilled revenues with respect to its demand and commodity true-up calculations.

PNG witness Williams testified that PNG serves approximately 133,000 customers in South Carolina and that during the twelve-month period ending March 31, 2010, Piedmont delivered approximately 24,321,000 dekatherms of natural gas to its South Carolina customers. PNG has continued to experience a reduction in weather normalized usage per customer, which may be due to the efficiency of new appliances used by customers as well as increased price awareness and conservation efforts on the part of customers. PNG and the natural gas industry have not seen evidence that conservation/reduced usage occurs during design day conditions.

ORS witness Sullivan testified that ORS had performed an examination of all aspects of PNG's deferred account #253.04 for the Review Period and that based upon that examination, as is identified and discussed in his testimony, it is the opinion of ORS that account #253.04 is accurately stated and that the balance of \$2,596,766 fairly represents PNG's under-collection balance as of March 31, 2010.

ORS witness Stites testified that PNG had adequate firm supplies to meet its firm customer requirements; is continuing its attempts to get the best terms available in its negotiations with suppliers; has used the spot market to purchase supplies for periods of one month or less; and managed its hedging activities in a manner consistent with the

terms of its approved hedging program during the Review Period. In addition, ORS does not recommend any change to the benchmark cost of gas at this time.

In her settlement testimony, ORS witness Stites stated that PNG administered its Gas Cost Recovery Mechanism (GCRM) during the Review Period in accordance with the Commission approved tariff and that ORS has determined that the terms of the Settlement Agreement serve the public interest and the Settlement Agreement is offered by all parties as a fair, reasonable, and full resolution of all issues in this proceeding. The Settlement Agreement balances the concerns of the using public and preserves the financial integrity of PNG.

The July 6, 2010 Settlement Agreement reflected the Parties agreement that: (i) PNG's gas purchasing policies and practices during the Review Period were reasonable and prudent; (ii) PNG properly adhered to the gas cost recovery provisions of its gas tariff and relevant Commission orders during the Review Period; (iii) PNG managed its hedging program during the Review Period in a reasonable and prudent manner consistent with Commission orders; and (iv) the end-of-period balances for PNG's hedging and deferred gas costs accounts are those reflected in the testimony of ORS witness Daniel F. Sullivan.

IT IS HEREBY ORDERED THAT:

1. The pre-filed direct testimony of PNG witness Keith P. Maust and the pre-filed direct testimony and exhibits of PNG witnesses Robert L. Thornton and William C. Williams are accepted into the record without objection.

2. The pre-filed direct testimony and exhibits of ORS witness Daniel F. Sullivan and the pre-filed direct testimony and settlement testimony of ORS witness Cary M. Stites are accepted into the record without objection.

3. The Settlement Agreement is accepted into the record and incorporated into and made part of this Order by reference and, based upon the testimony and exhibits presented at the hearing in this matter, is found to be in the public interest and constitutes a reasonable resolution of this proceeding.

4. PNG's gas purchasing policies and practices during the Review Period were reasonable and prudent.

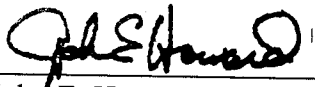
5. PNG properly adhered to the gas cost recovery provisions of its gas tariff and relevant Commission orders during the Review Period.

6. PNG managed its hedging program during the Review Period in a reasonable and prudent manner consistent with Commission orders.

7. The end-of-period balances for PNG's hedging and deferred gas cost accounts are those reflected in the testimony of ORS witness Daniel F. Sullivan.


8. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:



John E. Howard, Chairman

ATTEST:



David A. Wright, Vice Chairman
(SEAL)

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2010-4-G

IN RE:

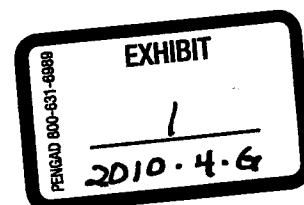
Annual Review of Purchased Gas)	
Adjustment and Gas Purchasing)	SETTLEMENT AGREEMENT
Policies of Piedmont Natural Gas)	
Company, Incorporated)	

This Settlement Agreement is made by and among the South Carolina Office of Regulatory Staff ("ORS") and Piedmont Natural Gas Company, Inc. ("PNG") (collectively referred to as the "Parties" or sometimes individually as a "Party").

WHEREAS, by the Public Service Commission of South Carolina ("Commission") Order No. 88-294, dated April 6, 1988, the Commission instituted an annual review of PNG's Purchased Gas Adjustment and Gas Purchasing Policies. Additionally, in Order No. 2002-223, dated March 26, 2002 in Docket No. 2001-410-G, the Commission required PNG to file regular reports on the status of the hedging program and the results of its hedging activities. In the above-captioned proceeding the review period is April 1, 2009 through March 31, 2010 ("Review Period");

WHEREAS, the Parties to this Settlement Agreement are the only parties of record in the above-captioned docket. There are no other parties of record in the above-captioned proceeding;

WHEREAS, the Parties have engaged in discussions to determine if a settlement of this proceeding would be in their best interest, and in the public interest;



WHEREAS, following those discussions the Parties have each determined that their interests and the public interest would be best served by settling the above-captioned case under the terms and conditions set forth below:

1. The Parties agree to stipulate into the record before the Commission the pre-filed direct testimony of Keith P. Maust, and the direct testimony and exhibits of PNG witnesses William C. Williams and Robert L. Thornton, without objection, change, amendment, or cross-examination by the Parties unless such is mutually agreed upon. PNG will present its witnesses at the hearing.

2. The Parties agree to stipulate into the record before the Commission the pre-filed direct testimony and exhibits of ORS witness Daniel F. Sullivan and the pre-filed direct and settlement testimonies of ORS witness Carey M. Stites, without objection, change, amendment, or cross-examination by the Parties unless such is mutually agreed upon. ORS will present its witnesses at the hearing.

3. The Parties further agree that with the stipulated testimony of record and the agreement of the Parties regarding the review period activity and end-of-period account balances, the hearing record before the Commission will conclusively demonstrate the following: (i) PNG's gas purchasing policies and practices during the Review Period were reasonable and prudent; (ii) PNG properly adhered to the gas cost recovery provisions of its gas tariff and relevant Commission orders during the Review Period; (iii) PNG managed its hedging program during the Review Period in a reasonable and prudent manner consistent with Commission orders; and (iv) the end-of-period balances for PNG's hedging and deferred gas costs accounts are those reflected in the testimony of ORS witness Daniel F. Sullivan.

4. The Parties agree to cooperate in good faith with one another in recommending to the Commission that this Settlement Agreement be accepted and approved by the Commission as a fair, reasonable and full resolution of the above-captioned proceeding. The Parties agree to use reasonable efforts to defend and support any Commission order issued approving this Settlement Agreement and the terms and conditions contained herein.

5. The Parties agree that by signing this Settlement Agreement, it will not constrain, inhibit or impair their arguments or positions in future proceedings. If the Commission should decline to approve the agreement in its entirety, then any Party desiring to do so may withdraw from the agreement without penalty.

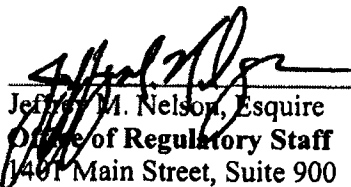
6. This agreement shall be interpreted according to South Carolina law.

7. Each Party acknowledges its consent and agreement to this Settlement Agreement by authorizing its counsel to affix his or her signature to this document where indicated below. Counsel's signature represents his or her representation that his or her client has authorized the execution of the agreement. Facsimile signatures and e-mail signatures shall be as effective as original signatures to bind any party. This document may be signed in counterparts, with the various signature pages combined with the body of the document constituting an original and provable copy of this Settlement Agreement.

[INTENTIONALLY LEFT BLANK – SIGNATURE PAGE FOLLOWS]

WE AGREE:

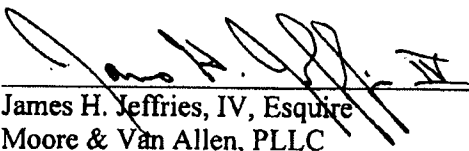
Representing and binding the Office of Regulatory Staff



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WE AGREE:

Representing and binding Piedmont Natural Gas Company, Inc.



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